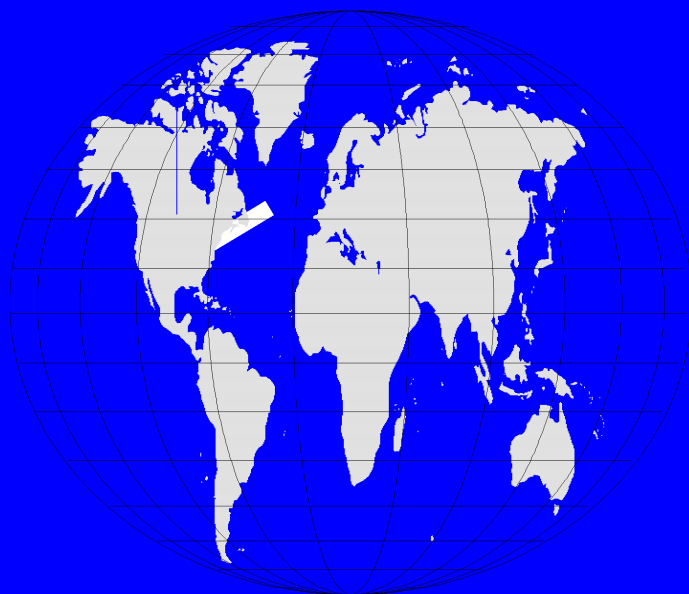


Report of Audit

**Audit of USAID/Bolivia's Review and
Certification of Unliquidated
Obligations for Project and Non-project
Assistance**

**Audit Report No.
1-511-98-002-F**



**SAN SALVADOR
EL SALVADOR**

**OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

January 6, 1998

MEMORANDUM FOR USAID/Bolivia Director, Frank Almaguer

FROM: RIG/A/San Salvador, Wayne J. Watson

SUBJECT: Audit of USAID/Bolivia's Review and Certification of Unliquidated Obligations for Project and Non-project Assistance, Audit Report No. 1-511-98-002-F

This memorandum is our report on the subject audit. In finalizing the report, we considered your comments on the draft report and have included them in their entirety as Appendix II.

The report contains three recommendations. Recommendation No. 1 identified \$10,147 in efficiencies for which final action has been taken through reprogramming of those funds. For Recommendation No. 2, a management decision can be achieved when the Mission agrees to improve its documentation procedures for certain commitments related to miscellaneous project expenses. Final action has been taken For Recommendation No. 3.1 through the Mission's implementation of improved procedures for compliance with USAID guidance, and a management decision can be achieved for Recommendation No. 3.2 when the Mission strengthens its review procedures for unliquidated obligations by including consideration of USAID's forward funding guidance. Please advise me within 30 days of actions planned or already taken to implement Recommendation Nos. 2 and 3.2.

I appreciate the cooperation and courtesy extended to my staff during the audit.

Background

Concerned that Federal agencies were recording obligations in situations where no real obligation existed and that information on which to determine an agency's future funding requirements was not reliable, Congress, with the General Accounting Office and the Office of Management and Budget, developed statutory criteria for determining the validity of an obligation. In order to properly certify the validity and appropriateness of obligated balances, agencies are required to verify their own accounts at least once each year. This verification is commonly referred to at USAID as the Section 1311 review or certification, named after the section of the original authorizing public law.

This audit is part of the Office of the Inspector General's (OIG) worldwide review of USAID's obligations for project and non-project assistance. The OIG's Division of Performance Audits (IG/A/PA) is leading this worldwide effort, with the assistance of auditors from all OIG offices of Regional Inspectors General.

The worldwide audit is limited to obligations for project and non-project assistance which had unliquidated balances on September 30, 1996. It does not cover obligations funded with U.S.-owned local currency, obligations for disaster relief, or obligations maintained by USAID for the Trade and Development Agency.

IG/A/PA randomly selected USAID sites for detailed audit work and also determined the number of unliquidated obligations to be randomly selected and reviewed at each site. A total of 19 sites (USAID/Washington and 18 missions) were selected for review. USAID/Bolivia was among those missions randomly selected.

Mission records indicate that, as of September 30, 1996, USAID/Bolivia had 144 unliquidated obligations for project and non-project assistance with balances totalling \$70,742,894.

Audit Objective

As part of a worldwide audit, the Office of Regional Inspector General/San Salvador audited selected unliquidated obligations at USAID/Bolivia as of September 30, 1996 to answer the following objective:

Did USAID/Bolivia review and certify its unliquidated obligations for project and non-project assistance in accordance with U.S. laws and regulations and USAID policies and procedures?

Appendix I describes in detail the audit's scope and methodology.

Audit Findings

Did USAID/Bolivia review and certify its unliquidated obligations for project and non-project assistance in accordance with U.S. laws and regulations and USAID policies and procedures?

For the items tested, USAID/Bolivia generally followed U.S. laws and regulations and USAID policies and procedures in reviewing and certifying its unliquidated obligations for project and non-project assistance; however, in order to fully comply with USAID procedures, the Mission needed to improve its review process by ensuring (i) proper documentation of its reviews and (ii) a more effective application of USAID's forward funding guidance.

The audit sample included 15 unliquidated obligations totalling \$12,283,275 and 41 commitments¹ associated with these obligations. Review of these obligations and commitments showed that USAID/Bolivia conducted quarterly Section 1311 reviews to ensure that unliquidated obligations and commitments were valid and still needed, making deobligations or decommitments when deemed appropriate. Unliquidated obligations were also properly certified as of September 30, 1996, and valid obligating documents were executed for all 15 obligations tested. However, as discussed below, the audit identified:

- six unliquidated obligations and two commitments with excessive balances totalling \$1,447,119 and \$2,271, respectively; and
- nine commitments totalling \$4,694,589 which had been recorded in the accounting system prior to obtaining valid signatures, and two commitments totalling \$2,663 which were not supported by proper documentation.

Some Obligations Had Excessive Balances

Of the 15 unliquidated obligation sample items reviewed during this audit, six of these obligations and two commitments had balances as of September 30, 1996 which exceeded anticipated needs, as defined by USAID guidance, by \$1,447,119 and \$2,271, respectively. At the time of our field work, one obligation continued to have an excess balance of \$10,147, which the Mission should take action to deobligate.

Recommendation No. 1: We recommend that USAID/Bolivia deobligate the \$10,147 excessive obligation, as shown in Appendix III of this report.

Each year, USAID's Bureau for Policy and Program Coordination issues guidance for the preparation of mission and office budgets. Guidance applicable to the period under audit states that budgets should be prepared as follows:

New Projects or Activities Obligations should provide funding for at least the first 18 months, but not more than 24 months.

Continuing Activities Obligations should be sufficient to fund anticipated expenses for no more than 12 months beyond the end of the fiscal year in which the obligation takes place.

¹GAO's *Principles of Federal Appropriations Law* defines an obligation as "some action that creates a liability or definite commitment on the part of the government to make a disbursement at some later time." USAID Financial Management Bulletin, Part II, No. 14A, defines a commitment as "funds set aside [for an obligation] to pay for the goods or services being procured."

We reviewed obligation balances as of September 30, 1996 and applied USAID's guidance as follows:

New Activities In general, obligation or commitment balances were considered reasonable if they did not exceed anticipated expenses for a period of 24 months following the date of obligation or commitment, or through September 30, 1997, whichever was later.

Continuing Activities In general, obligation or commitment balances were considered reasonable if they did not exceed anticipated expenses for the 12-month period ending September 30, 1997, the expiration date of the obligating or commitment document, or the project assistance completion date, whichever was earlier. Balances were considered reasonable as of the time of our audit if they did not exceed the anticipated expenses through September 30, 1998. We also took into account balances of earlier or planned obligations which affected the continuing need for part or all of the unliquidated balance being audited. Any amount questioned was discussed with appropriate mission staff.

In several instances, the Mission did not identify funds in the September 1996 Section 1311 review which were excessive as of September 30, 1996. These funds were not identified, in part, because the Mission needed to improve aspects of its Section 1311 review process. For example, the Mission did not review all uncommitted balances of unliquidated obligations, nor did it properly document the review of uncommitted balances and other key aspects of the review process. (A discussion of these issues follows on page 5 in our Observations on Internal Controls.) In addition, the Mission did not use USAID's forward funding guidance as a criteria in its Section 1311 review. As a result, the Mission had \$1,447,119 and \$2,271 in unliquidated obligations and commitments, respectively, which were considered excessive as of September 30, 1996, thereby tying up these funds which could have been used for other purposes. The details of these instances are discussed below.

Four sampled obligations and one commitment had unliquidated balances as of September 30, 1996 which exceeded the forward funding guidance by \$1,381,925 and \$2,014, respectively, because they would not be spent prior to September 30, 1997. These funds were not deobligated or decommitted because the Mission did not consider USAID forward funding guidance in performing its Section 1311 review. However, because the funds are programmed to be spent prior to September 30, 1998, none of these obligations or commitments were excessive as of the time of our audit.

One sample item related to the Democratic Institutions Project (Project No. 511-0610) had an uncommitted balance as of September 30, 1996 totalling \$3,044. This project had a completion date of December 31, 1995. Since there was no longer a need for these funds, they should have been deobligated prior to September 30, 1996, and were therefore excessive as of that time. Since the Mission did not review all uncommitted balances in

the Section 1311 review process, this excessive amount was not included in the September 30, 1996 review and, therefore, was not identified as excessive. However, since the funds were subsequently deobligated, there was no excessive balance as of the time of our audit.

A commitment under a sample item related to the Micro- and Small-Enterprise Development Project (Project No. 511-0596) also had a small excessive balance of \$257 as of September 30, 1996. The final advance under the commitment, which provided funds to a local non-governmental organization, had been made and was subsequently liquidated. There was no longer any need for the \$257 as of September 30, 1996, but the funds were not decommitted due to an oversight on the part of the Mission. Therefore, the amount is considered excessive as of September 30, 1996; however, since this remaining balance was subsequently decommitted, there was no excessive amount at the time of the audit.

Another sample item, under Reducing Environmental Degradation and Protecting Biodiversity (Project No. 511-0621), contained \$50,000 earmarked for audit coverage of Chemonics International, Inc., one of the project's implementing entities. According to Mission officials, there was no locally funded audit planned because the entity in question was a U.S.-based contractor already subject to annual audits. Since the Mission did not review all uncommitted balances in the Section 1311 review process, the \$50,000 was not included in the September 30, 1996 review and, therefore, was not identified as excessive as of September 30, 1996. However, since this amount was subsequently reprogrammed to be used prior to September 30, 1998, no excessive balance remained at the time of our audit.

An obligation with an unliquidated balance of \$117,380 as of September 30, 1996 for Technical Support for Policy Reform (Project No. 511-0616) included commitments for multiple project activities, as well as uncommitted funds. The Mission did not have a clear spending plan for \$12,150 of these funds, including two commitments and an uncommitted balance. Despite the lack of a spending plan, the Mission did not deobligate these funds because it believed they might be needed at a later date. As of the time of our audit, the Mission still did not have spending plans for \$10,147 of this amount, which we are recommending be deobligated, as shown in Appendix III of this report.

Observations on Internal Controls

While conducting our fieldwork at USAID/Bolivia, we observed that certain USAID procedures related to the review and certification of obligations for project and non-project assistance were not being followed. In addition, nine commitments totalling \$4,694,589 were recorded in the accounting system prior to obtaining required signatures, and two commitments totalling \$2,663 were not supported by proper documentation. These 11 commitments were improperly recorded due to Mission staff not complying with USAID procedures -- specifically (1) improper timing for recording obligations and

commitments and (2) establishing commitments for miscellaneous expenses without executing proper documentation.

USAID/Bolivia Needs to Ensure Proper Commitment Documents

Financial Management Bulletin, Part II, No. 3, "Project Accounting", states that "a commitment is the completed, fully signed, contract document, e.g. finalized purchase order or contract for services." However, of the 41 unliquidated commitments reviewed under our 15 sample obligations, nine commitments, with balances totalling \$4,694,589 were recorded before the commitment documents were properly signed. In most instances, commitments were recorded at the same time as the reservation of funds. In addition, two other commitments which had balances totalling \$2,663 as of September 30, 1996 lacked the required documentation. These two commitments, established for miscellaneous project expenses for the Community and Child Health Project (Project No. 511-0594), and the Technical Support for Policy Reform Project (Project No. 511-0616), were based on notations made during the quarterly accrual reviews performed by the project manager and the project accountant.

In addition, in several instances, commitments for purchases made for the Cochabamba Regional Development Project (Project No. 511-0617) were based on reimbursement vouchers from Government of Bolivia implementing entities. These implementing entities directly paid on behalf of USAID certain expenses, such as vehicle maintenance, automobile insurance, solar panels, and tires. The entities later presented USAID/Bolivia with claims for reimbursement of these costs. Since these commitments were not made based on commitment documents, such as contracts or purchase orders, they were not in accordance with the above-mentioned agency guidance.

Recommendation No. 2: We recommend that USAID/Bolivia strengthen its procedures and supervision for recording commitments to ensure that only properly executed commitments are recorded.

USAID/Bolivia Needs to Strengthen Its Section 1311 Review Procedures

USAID Financial Management Bulletin, Part II, No. 14A, provides detailed guidance on how missions are to conduct their Section 1311 reviews. In addition, USAID's Bureau for Policy and Program Coordination has issued guidance on forward funding of Mission activities. USAID/Bolivia also recently developed local procedures to provide guidance to its staff on how the reviews are to be conducted, although these locally issued procedures had not been implemented at the time of our audit. We noted that the Mission's 1311 reviews did not comply with certain aspects of USAID guidance. In our opinion, improved Mission procedures and supervision of the Section 1311 review process

would have prevented the exceptions identified in this report from occurring, and it is likely that the \$1,447,119 in excessive unliquidated obligations and \$2,271 in excessive commitments would have been identified and addressed in the September 1996 Section 1311 review. Discussed below are the details of these management control deficiencies.

USAID guidance states that the Mission accounting reports used in Section 1311 reviews must be annotated to show (1) the date of the review and the names of the reviewers, (2) the decision made with regard to the individual obligation/commitment accounts, including the summarized rationale for the decision, and (3) related actions that should be taken to appropriately adjust the affected accounts. Mission controllers are to assure a high standard of documentation and level of analysis that would lead an auditor to conclude that (1) a careful review of each unliquidated obligation and commitment document was conducted, (2) the review was properly documented, and (3) the findings and conclusions are supported by the analyses and documentation. USAID/Bolivia recently issued local guidance which also incorporates similar notation requirements for each unliquidated obligation and commitment.

The audit showed that the Mission's Section 1311 review working papers did not contain adequate documentation. Some items lacked the reviewer's name and date on the review sheets, and others had no notations regarding the decision made with regard to the individual obligation or commitment accounts. Below is a summary of the exceptions noted regarding the 15 sample items which were included in the Mission's September 1996 Section 1311 review:

Name of reviewer on review sheets:	
Sample items without reviewer's name and date	5
Sample items with reviewer's name and date	10
Total	15
Notations regarding 1311 reviewer's decision:	
Sample items with no decision notations	14
Sample items with decision notations	1
Total	15
Date of Section 1311 Review Noted:	
Sample items without date indicated	3
Sample Items with date indicated	12
Total	15

Names of Other Reviewers Noted:	
Sample items without other reviews noted	5
Sample items with other reviews noted	10
Total	15

USAID's Bureau for Policy and Program Coordination issues guidance for the preparation of mission and office budgets. This guidance provides that new projects should not be funded beyond 24 months and continuing activities should be funded for no more than 12 months beyond the end of the fiscal year in which the obligation takes place. However, USAID/Bolivia did not consider USAID forward funding guidance in performing its Section 1311 reviews because the Mission believed that the forward funding guidance applied only to the budgetary process and should not be used (i) as criteria in the Section 1311 review process or (ii) as a basis for deobligating funds. As a result, four sampled obligations and one commitment had unliquidated balances as of September 30, 1996 which exceeded USAID's forward funding guidance by \$1,381,925 and \$2,014, respectively, because they funded continuing activities and would not be spent prior to September 30, 1997.

USAID guidance requires analyses of unliquidated balances at both the obligation and commitment levels. However, USAID/Bolivia's Section 1311 review did not include in its scope a review of all uncommitted balances. Of the \$2,393,385 in uncommitted funds related to our sample items as of September 30, 1996, \$175,861 was not included in the Section 1311 review. For the remaining \$2,217,524, project accountants stated that the balances were reviewed, but they could not provide any documentation of these reviews. Therefore, the procedures for including uncommitted balances in the Section 1311 review should be re-emphasized to Mission personnel and, as necessary, supervision should be improved to ensure adherence to these procedures.

USAID guidance requires mission controllers to prepare two communications regarding expired or soon-to-expire contracts, obligations, and commitments. First, the controller should report any completed contract, grant, or cooperative agreement to the responsible contracting officer to obtain a decision on the decommitment and/or deobligation of the remaining funds. Second, mission controllers are to periodically prepare a listing of all unliquidated obligations and commitments with expired or soon-to-expire completion or termination dates. These listings should be provided to Mission management for review of the validity of the completion or termination dates. USAID/Bolivia's standard operating procedures, which have been recently implemented, also require written communications to Mission management on a quarterly basis but do not require any communication to the contracting officer. However, at the time of our audit, a new policy was implemented requiring quarterly reporting of expired or soon-to-expire activities to Mission management. This new reporting procedure included formal notification of the contracting office and is therefore consistent with USAID guidance.

Recommendation No. 3: We recommend that USAID/Bolivia:

- 3.1 strengthen its procedures and supervision for the Section 1311 review process to ensure (1) proper documentation of the review, (2) inclusion of all uncommitted obligation balances in the scope of the review, and (3) required notifications of expired contracts, grants, and cooperative agreements; and**
- 3.2 include in its Section 1311 review procedures the consideration of USAID's forward funding guidance.**

Although our observations were based on limited testing, we believe that the conditions found would have been avoided had Mission staff complied with USAID requirements.

Management Comments and Our Evaluation

USAID/Bolivia generally agreed with Recommendation No. 1 of this report and has taken final action on the recommendation. The project completion date of the Technical Support for Policy Reform Project was extended to September 30, 1999 and the funds recommended for deobligation were reprogrammed for costs related to policy reform studies in support of the Bolivian Government's Poverty Alleviation Plan.

USAID/Bolivia partially concurred with Recommendation No. 2, describing steps taken to (1) prevent future erroneous postings and (2) better document commitments related to the reimbursement of Bolivian Government agencies for expenses incurred on behalf of USAID. However, Management disagreed with our conclusion that improved documentation was needed for commitments of miscellaneous project expenses. They believed that their current practice of documenting these commitments as notes written in the margins of accounting reports is a sufficient and expedient procedure for recording commitments of estimated recurring administrative costs of less than \$500. They pointed out that flexibility is appropriate in documenting miscellaneous commitments of such minor expenses. We agree that cost-effective controls are appropriate for recording such commitments and that recording individual commitments for these recurring costs would be unnecessarily burdensome. Instead, an alternative would be to incorporate a version of USAID's operating expense procedures by periodically committing estimates of such miscellaneous costs. However, for the purposes of management control, we believe that the Mission would benefit from a more formal documentation of these costs than their current procedures provide. Signed authorization by the cognizant USAID project manager and host government official documenting commitment of estimated future expenses of this nature would be both cost-effective and provide an improved basis for managing and reviewing these commitments. We have therefore retained this recommendation in our final report and request that the Mission advise us within 30 days of actions planned or already taken to implement the recommendation.

Final action has been completed for Recommendation No. 3.1. The Mission has taken the appropriate steps to ensure compliance with the requirements of Financial Management Bulletin, Part II, No. 14A, for the review and certification of unliquidated obligations. As for Recommendation No. 3.2, the Mission did not agree with our recommendation to include consideration of USAID's forward funding guidance as part of its Section 1311 reviews. The Mission pointed out that this guidance was not applicable for any use beyond the budgetary planning process. While there is no explicit requirement that the Mission apply forward funding guidance as part of the Section 1311 review process, we nonetheless believe that budgetary planning and the review of unliquidated obligations are necessarily linked. The control and oversight of USAID pipelines is an important aspect of USAID's financial management, and Mission pipelines should be kept at reasonable levels. Various criteria can be used to assist the Mission in making its decisions on pipeline amounts, including USAID's forward funding guidance. Therefore, we have retained this recommendation in our final report and request that the Mission advise us within 30 days of actions planned or already taken to implement the recommendation.

The full text of management's comments on our report are attached as Appendix II.

Scope and Methodology

This audit is part of the Office of the Inspector General's (OIG) worldwide review of USAID's obligations for project and non-project assistance. The worldwide audit is limited to obligations for project and non-project assistance which had unliquidated balances on September 30, 1996. It does not cover obligations funded with U.S.-owned local currency, obligations for disaster relief, or obligations maintained by USAID for the Trade and Development Agency.

The Regional Inspector General/San Salvador audited USAID/Bolivia's review and certification of unliquidated obligations for project and non-project assistance, as of September 30, 1996. The audit was conducted at USAID/Bolivia, from July 14, 1997 through August 1, 1997, and was performed in accordance with generally accepted government auditing standards.

At the request of IG/A/PA, USAID/Bolivia compiled a list of its obligations for project and non-project assistance which had unliquidated balances on September 30, 1996. The unliquidated balances on this list totalled \$70,742,894. We randomly selected 15 obligations totalling \$12,283,275 from the list for detailed audit testing. Random sampling will allow the OIG to make USAID-wide projections based on field work performed at a limited number of sites. Because the audit sample was designed as part of the worldwide audit, a materiality threshold was not established for our work at USAID/Bolivia and our testing was not designed to provide reasonable assurance at the Mission level.

While conducting our fieldwork at USAID/Bolivia, we also performed limited tests of compliance with USAID and Mission procedures related to Section 1311 reviews and pipeline reviews of obligations for project and non-project assistance. Section 1311 review refers to the review of obligations to determine if the requirements of 31 U.S.C., Section 1501(a) (originally enacted as Section 1311 of the Supplemental Appropriation Act of 1955), are met for the validity of the obligations.

Because the accuracy and completeness of the Mission's list was crucial to our ability to make USAID-wide projections, we interviewed appropriate Mission staff about their methodology in preparing the list and reconciled the list and its totals to other mission reports.


Each obligation was reviewed to determine whether it was valid in accordance with the provisions of 31 U.S.C. 1501(a) and decisions of the U.S. General Accounting Office. The results of our field work at USAID/Bolivia will be consolidated with the results of field work conducted at USAID/Washington and other missions and used to make USAID-wide projections.

We also reviewed the unliquidated balance of each selected obligation to determine whether, as of September 30, 1996, the balance was needed, in full or in part, to cover expenses anticipated during reasonable future periods. In making these decisions, we considered the USAID and Mission guidance for forward funding, activity-specific budgets and spending plans, actual disbursements, progress reports, and accruals. When amounts were questioned, we interviewed relevant activity managers and contracting or grant officers. We also considered prior audits and obtained written representations from Mission management on key assertions related to our audit objective. The results of field work at USAID/Bolivia will be consolidated with the results of field work conducted at USAID/Washington and other missions and used to make USAID-wide projections.

In addition to capturing information and making calculations as of September 30, 1996, for USAID-wide projections, we determined whether the unliquidated balances of any obligations reviewed during the audit still had excess balances at the time of our field work. If so, we recommended that the excess funds be deobligated or decommitted, as appropriate.

UNITED STATES GOVERNMENT
memorandum

CONT/97-085

DATE: November 20, 1997
REPLY TO: 
ATTN OF: Hilda Arellano, Acting Director, USAID/Bolivia
SUBJECT: Audit of USAID/Bolivia's Review and Certification of Unliquidated Obligations for Project and Non-Project Assistance. Audit Report No. 1-511-97-00X-P
TO: RIG/A/San Salvador, Wayne J. Watson

This Memorandum serves as the official USAID Bolivia response to the draft audit report received from RIG/A/San Salvador, Wayne J. Watson on October 20, 1997 and addressed to USAID/Bolivia Director, Frank Almaguez. USAID/Bolivia appreciates the role played by RIG/A auditors in elevating the Mission's awareness of areas of weakness in the systems relating to the review of unliquidated obligations and commitments. Our response addresses each of the auditors recommendations as numbered in the draft report.

RECOMMENDATION NO. 1:

The draft audit report recommends that USAID/Bolivia deobligate an uncommitted balance of \$10,147 under the Technical Support for Policy Reform project which was not programmed for expenditure prior to the Project Action Completion Date (PACD) of September 30, 1997. A Project Implementation Letter (See Attachment A) has since been signed with the host government to extend the PACD through September 30, 1999 and reprogram the funds for policy reform studies in support of the Bolivian Government's Poverty Alleviation Plan. The funds are expected to be spent during the first six months of FY 1998.

Based on the above action, USAID/Bolivia requests that this recommendation be closed upon issuance.

RECOMMENDATION NO. 2:

The discussion in support of the recommendation "that USAID/Bolivia strengthen its procedures and supervision for recording commitments to ensure that only properly executed commitments are recorded" refers to three types of improper commitments. These include: 1) commitments recorded before the commitment documents were properly signed; 2) commitments based on notations made during quarterly accrual review discussions between the project manager and project accountant; and 3) commitments recorded to support reimbursement of expenses incurred by a Government of Bolivia implementing organization on behalf of USAID/Bolivia. The auditors findings for each of these types of commitments are addressed separately in the paragraphs that follow.

Part 1: It should be noted that with the exception of one error by a former employee which resulted from recording a commitment based on an obligating document, all of the erroneous postings found by the auditors were made by a single accountant. Given the limited scope of the audit, our Controller's Office subsequently conducted a thorough review of recorded commitments, which included several hundred additional transactions. This review confirmed the auditors' finding that errors of this type were limited to a single accountant and that the other four accountants had followed established obligation and commitment procedures.

In discussing the erroneous postings with the responsible accountant, we found that she was well aware of Agency policy regarding timing of the postings, but had justified the early postings for her own programmatic reasons. We issued a strongly worded memo to the responsible accountant pointing out the audit findings and indicating that any future mispostings of this nature will result in formal disciplinary proceedings. A copy of this memo was given to the auditors prior to their departure and another was placed in the employee's personnel file.

In addition to above action, the Acting Controller issued a memorandum to all individuals responsible for entry of this type of transaction as a reminder of the importance of correct postings and the proper procedures to be followed when recording obligations and commitment transactions. A copy of this memo was provided to the auditors. The Chief Accountant has been directed to work closely with the offending accountant to ensure errors of this nature are not repeated in the future.

Part 2: The auditors took exception to miscellaneous commitments established for the Community and Child Health Project and Technical Support of Policy Reform Project which were made based on notations made during quarterly accrual review discussions between the project manager and project accountant. Many of the Project Agreements with the Bolivian Government budget funds to be administered by USAID/Bolivia. Larger value commitments under such budget line items normally consist of one or more project-funded personal services contracts as well as purchase orders for office furniture, equipment, and other large value support items. The administrative cost line item also covers a variety of miscellaneous

project costs that are similar in value and nature to OE petty cash expenditures. Such is the nature of the commitments identified by the auditors. Miscellaneous costs can include customs fee-for-service incurred for processing project imports, DHL charges for project-related correspondence, pro-rated charges for office utilities which benefit project-funded personnel, etc.

It should be noted that all of the charges incurred under the commitments in question were within the petty cash limit of \$500. For miscellaneous costs of the type at issue, the obligation to pay another party, e.g., the customs office or DHL, arises when the Mission or a project implementer takes a specific action to incur the cost. Because of their nature and value, these "obligations to pay" are not generally preceded by a formal two-party commitment document, such as a service contract. Thus, we are unable to commit funds in advance in the usual way, against a contract document. In order to ensure the funds are available when needed, the Mission often both earmarks and commits funds based on an estimate of costs likely to be incurred during the period for which funds have been obligated.

In a sense, the Mission is borrowing from OE procedures which authorize establishment of an OE obligation for recurring administrative costs, pending receipt of formal payment documents. While the Mission might merely earmark the funds in advance and record a commitment only later at the time of expenditure, i.e., only when payment is required or when invoices are received, this would slow down the payment process. For petty cash-type expenditures of the type at issue, we believe such delays are unwarranted and unnecessary.

This finding is virtually identical to a preliminary finding identified by the auditors during their field work which related to miscellaneous petty cash type expenditures under the CORDEP Project. An explanation for the preliminary finding was previously provided and found acceptable by the auditors. In the case in point, the accountant noted the need to increase the estimated commitment during the quarterly accrual meeting, but given the nature of the transaction USAID/Bolivia believes that no formal commitment document is required and even the accountant's notation was unnecessary.

Part 3: The final part of this recommendation relates to reimbursements of Bolivian Government agencies for expenses incurred on behalf of USAID. All of these expenses were incurred in accordance with approved host government contracting procedures. Technically, in such a situation, the U.S. Government commitment to pay is actually incurred at the time reimbursement of the expenditures is made. However, the auditors did not accept the USAID/Bolivia commitment method as meeting the requirements of Financial Management Bulletin, Part II, No. 3. While this procurement/reimbursement mechanism requires USAID review and approval of host government procurements and has resulted in a significantly reduced administrative burden for the project, USAID/Bolivia acknowledges the need to strengthen the corresponding commitment procedure. Nevertheless, since payment is to a host government organization, a standard contract type document would not be appropriate. Therefore, USAID/Bolivia has adopted a policy whereby funds will be committed based on Bolivian Government approval of a Project Implementation Letter (PIL) which establishes a budget for this type of expenditures. Although there is little formal Agency guidance on

"committing PILs", a countersigned PIL defining the USG's obligations to pay a host government entity amounts for specific items pursuant to specific payment procedures, is a standard USAID mechanism for committing funds. A PIL is currently in process which when countersigned by the host government will commit the funds necessary for future payments of the type in question.

Based on the above action, USAID/Bolivia requests that part 1 of the recommendation be closed upon issuance, that part 2 be deleted, and that our management decision for part 3 be accepted for resolution.

RECOMMENDATION NO. 3:

The auditors recommend "that USAID/Bolivia strengthen its procedures and supervision of the section 1311 review process to ensure (1) proper documentation of the review, (2) inclusion of USAID forward funding guidance as criteria for the review, (3) inclusion of all uncommitted obligation balances in the scope of the review and (4) required notifications of expired contracts, grants, and cooperative agreements."

Parts 1, 3 and 4: USAID/Bolivia recognizes past weaknesses in our Section 1311 review process and appreciates the auditors' contributions in helping identify needed improvements. However, USAID/Bolivia would like to point out that, prior to the audit, we recognized the need to strengthen procedures and supervision of the Section 1311 review process to (1) insure proper documentation of the review, (2) more fully document the inclusion of uncommitted obligation balances in the scope of the review, and (3) provide better notifications of expired contracts, grants and cooperative agreements. With this in mind, the Controller's Office issued Standard Operating Procedure (SOP) SOP-CONT-97-004, which became effective June 7, 1997, and served as guidance for the Section 1311 review conducted during September 1997.

With regard to part 4 of the recommendation, the auditors pointed out that our procedure, although adequate in its reporting requirements to management, failed to require reporting to the contracting officer. This oversight was corrected with the establishment of the report format for reporting expired or soon-to-be-expired activities to Mission management which includes sending a copy to the contracting office.

On August 11, 1997, the Controller's offices conducted training for accountants which reviewed Section 1311 review requirements and discussed implementation of the new Standard Operating Procedure. The Section 1311 review conducted during September 1997 was conducted in accordance with the Mission's policy guidance and the training recently provided. The USAID/Bolivia Controller has confirmed that the review was properly documented, verified that unarmarked and uncommitted balances were considered, and confirmed that Mission management and the contracting officer were advised of expired and soon-to-be-expired activities.

Based on the above action USAID/Bolivia requests that parts 1, 3 and 4 of the recommendation be 3 be closed upon issuance.

Part 2: USAID/Bolivia does not concur that the guidance set forth by the auditors as forward funding guidance was ever intended by the Agency to be used in conducting Section 1311 reviews. We have seen no evidence, other than the auditors' interpretation, that the Agency intended the guidance for application beyond the budget planning process, but have ample evidence to the contrary. Documentation in support of the USAID/Bolivia position is provided in the following paragraphs.

The Forward Funding Guidelines document, issued as Attachment A to FY 1996 Mission Budget Planning Document Guidance dated May 27, 1994 and presented by the auditors as Agency policy, itself states that the guidelines were "to be used by missions and offices in considering the FY 1995 and FY 1996 funding levels they (proposed) in the FY 1996 BPD" (page 1 paragraph 5). The twelve month forward funding (page 2 paragraph A) appears only to have been intended as guidance for requesting Operating Year Budgets and establishing obligations and not for evaluating the excessiveness of pipelines. In fact, the same document (page 1 paragraph 1) states that "the guideline remains that pipelines exceeding two year's obligations based on the average of the last three years are considered to be excessive." Even here, the statement is only provided as budget guidance. In no way does it attempt to establish absolute pipeline limits or provide guidance to controllers for conducting Section 1311 reviews, but rather suggests that "missions should justify incremental funding to programs with excessive pipeline".

Even if the Forward Funding Guidelines could be considered to have application beyond the budgeting process, the Agency has taken no action to implement such a policy as guidance to be used by controllers in carrying out Section 1311 reviews of obligations and commitments. In responding to a USAID/Bolivia inquiry on the subject, the Agency's senior Financial Management Officer over overseas Financial Management operations (Tony Cully) made the following statement: "My position is the forward funding guidance is an Agency established policy and not the responsibility of FM to implement and not part of the 1311 review. The 1311 review is to review the legal basis for recording the obligation and the unliquidated balances. A signed contract/grant establishes an obligation, if it does not conform to our forward funding policy that does not negate the obligation. "

In a similar comment the head of the LAC Bureau budget office (Robert Meehan) has stated: "I don't think the number of months of a pipeline per se is relevant to the validity of the obligation, which is the test of the 1311 review. There is a disconnect within the agency between forward funding guidance and pipeline guidance. ...It has been Agency policy to limit new obligations to 24 months of expenditures for new activities and 18 months of expenditures for on-going activities. This guidance did not take into account available pipeline prior to obligations. So one would be within Agency guidance to obligate 18 months worth of expenditures even if one had 20 months of available pipeline. And many operating units in the Agency did just this, resulting in pipelines of over 3 years in many

instances..."

In summary, the USAID/Bolivia position is that the Agency has not issued forward funding guidance for consideration as part of the Section 1311 review process. Furthermore, we do not consider implementation of the budget guidance promoted by the auditors as prudent within the management stewardship of our development program. While it may be in the interest of the Agency to develop and issue guidance of this nature, such action is not within the scope of USAID/Bolivia's control.

In the absence of Agency instruction to controllers on this issue, USAID/Bolivia finds audit references relating to Mission failure to consider USAID forward funding guidance in performing Section 1311 reviews to be inappropriate. We request that all such statements along with part 2 of this recommendation be removed from the audit report.

**Excessive Obligations as of September 30, 1996
As Determined by Audit**

Obligation No.	Excessive Amount	Reason Considered Excessive
PA 061750086	\$319,991	Excessive Forward Funding
PA 062650044	\$16,592	Excessive Forward Funding
GA 062130108	\$50,000	Funds No Longer Needed
GA 062130108	\$8,945	Excessive Forward Funding
PA 061010151	\$3,044	Funds No Longer Needed
PA 063750093	\$1,036,397	Excessive Forward Funding
GA 061620170	\$12,150	Funds No Longer Needed
Total	\$1,447,119	

**Excessive Commitments as of September 30, 1996
As Determined by Audit**

Obligation & Commitment Number	Excessive Amount	Reason Considered Excessive
PA 059630081/ADM 0596002	\$257	Funds No Longer Needed
PA 059440021/MC 059440157	\$2,014	Excessive Forward Funding
Total	\$2,271	

**Amounts Recommended for Deobligation
As of the Time of the Audit (August 1, 1997)
And as Determined by Audit**

Obligation No.	Amount Recommended for Deobligation	Reason for IG Recommendation
GA 061620170	\$10,147	Funds No Longer Needed
Total	\$10,147	

